

State Land Department

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	130.7	129.7	129.7
Personal Services	6,639,500	7,295,000	7,295,000
Employee Related Expenditures	2,695,200	3,034,300	2,969,300
Professional and Outside Services	1,188,500	1,357,500	1,357,500
Travel - In State	92,300	100,000	100,000
Travel - Out of State	20,300	20,000	20,000
Other Operating Expenditures	3,021,700	3,171,300	3,226,800
Equipment	645,900	180,000	180,000
OPERATING SUBTOTAL	14,303,400	15,158,100	15,148,600
SPECIAL LINE ITEMS			
CAP User Fees	705,700	737,800	769,900 ^{1/}
Due Diligence Fund	0	500,000	500,000
Natural Resource Conservation Districts	563,100	650,000	650,000 ^{2/}
Scanning and Digitizing Trust Land Records	1,006,200	0	0
Streambed Navigability Litigation	0	0	220,000
AGENCY TOTAL	16,578,400	17,045,900	17,288,500 ^{3/}
FUND SOURCES			
General Fund	12,507,700	12,520,500	12,491,400
<u>Other Appropriated Funds</u>			
Due Diligence Fund	0	500,000	500,000
Environmental Special Plate Fund	173,100	260,500	260,600
Trust Land Management Fund	3,897,600	3,764,900	4,036,500
SUBTOTAL - Other Appropriated Funds	4,070,700	4,525,400	4,797,100
SUBTOTAL - Appropriated Funds	16,578,400	17,045,900	17,288,500
Other Non-Appropriated Funds	751,200	850,000	800,000
Federal Funds	698,900	50,000	0
TOTAL - ALL SOURCES	18,028,500	17,945,900	18,088,500

AGENCY DESCRIPTION — The agency manages the state's 9.2 million acres of trust land on behalf of its 13 beneficiaries. In order to generate revenue, the agency plans, leases, and sells trust land. The agency also generates revenue by collecting royalties from trust land minerals and other natural products.

Operating Budget

The budget includes \$15,148,600 and 129.7 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$11,331,500
Environmental Special Plate Fund	600
Trust Land Management Fund	3,816,500

These amounts fund the following adjustments:

Risk Management Premium

The budget includes an increase of \$52,000 from the Trust Land Management Fund in FY 2017 for increasing Risk Management insurance premiums.

- ^{1/} The appropriation includes \$769,900 for Central Arizona Project User Fees in FY 2017. For FY 2017, from municipalities that assume their allocation of Central Arizona Project water for every dollar received as reimbursement to the state for past Central Arizona Water Conservation District payments, \$1.00 reverts to the state General Fund in the year that the reimbursement is collected. (General Appropriation Act footnote)
- ^{2/} Of the amount appropriated for Natural Resource Conservation Districts in FY 2017, \$30,000 shall be used to provide grants to Natural Resource Conservation Districts environmental education centers. (General Appropriation Act footnote)
- ^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Statewide Adjustments

The budget includes a decrease of \$(61,500) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(61,200)
Environmental Special Plate Fund	100
Trust Land Management Fund	(400)

(Please see the Agency Detail and Allocations section.)

CAP User Fees

The budget includes \$769,900 from the General Fund in FY 2017 for Central Arizona Project (CAP) User Fees. This amount funds the following adjustments:

CAP Rate Increase

The budget includes an increase of \$32,100 from the General Fund in FY 2017 to adjust the appropriation for increased CAP rates. This funding level assumes that the department will be billed for “capital charges” of \$24 per acre foot on 32,076 acre-feet of water in FY 2017 for a total annual charge of \$769,900. This amount will be \$32,100 above the appropriation for CAP user fees of \$737,800 for FY 2016.

Pursuant to A.R.S. § 36-106.01, the State Land Department has a long-term contract with the Central Arizona Water Conservation District (CAWCD) (the governing entity for CAP) for the rights to purchase 32,076 acre-feet of CAP water annually for municipal and industrial uses on state trust lands. The department typically does not take delivery of the water, but must still pay capital charges to the CAWCD each year in order to maintain its CAP water rights. (The CAWCD uses revenue from capital charges to fund repayment of federal construction debt for the CAP.) Maintaining CAP water rights on state trust lands increases their market value. When CAP water rights on state trust lands are transferred to a municipality through the sale or lease of state trust lands, the state General Fund is reimbursed for all previous costs associated with the water rights pursuant to A.R.S. § 37-106.01C. *(Please see related General Appropriation Act footnote.)*

Due Diligence Fund

The budget includes \$500,000 from the Due Diligence Fund in FY 2017 for this line item. This amount is unchanged from FY 2016.

The State Land Department uses monies in this line item to fund due diligence studies on land that it prepares for auction. The purchasers of state trust land then

reimburse the State Land Department for the cost of the studies.

Natural Resource Conservation Districts

The budget includes \$650,000 in FY 2017 for Natural Resource Conservation Districts (NRCDS). This amount consists of:

General Fund	390,000
Environmental Special Plate Fund	260,000

These amounts are unchanged from FY 2016.

Monies in this line item are used to provide for natural resource research, activities, and staff at the state’s 30 NRCDS. These districts are established to provide local conservation assistance and education and to coordinate the receipt of federal grants. A.R.S. § 37-1014 requires the department to include in its budget request up to \$40,000 for each NRCDS and \$60,000 for each education center for a 2-year period.

A General Appropriation Act footnote requires that \$30,000 of the total appropriation for NRCDS be used to provide grants to NRCDS environmental education centers. The \$30,000 is divided among the 26 education centers sponsored or cosponsored by 30 NRCDS. Districts that sponsor an education center also receive \$5,000 each year from the Environmental Special Plate Fund, per A.R.S. § 37-1015.

The revenue deposited in the Environmental Special Plate Fund consists of \$17 of the \$25 fee for environmental license plates. Current levels of Environmental Special Plate Fund revenue do not permit expenditure of the full appropriation. Revenue for FY 2015 totaled \$147,800 and will not be able to fund the appropriated amount, which is set at \$260,000. The revenue generated from the Environmental Special Plate Fund has trended downward and license plate sales have not reached \$260,000 since FY 2007.

Streambed Navigability Litigation

The budget includes \$220,000 from the Trust Land Management Fund in FY 2017 for Streambed Navigability Litigation. This amount funds the following adjustments:

Streambed Navigability Litigation

The budget includes an increase of \$220,000 from the Trust Land Management Fund in FY 2017 for streambed navigability litigation. Pursuant to A.R.S. §§ 37-1123 and 37-1124, the Land Department is required to provide evidence to the Arizona Navigable Stream Adjudication

Commission (ANSAC) to help resolve litigation regarding the navigability of watercourses in the state. *(Please see the Arizona Navigable Stream Adjudication section.)*

The Land Department will use monies in this line item to fund expert witness services, technical examinations, and associated legal costs it expects to incur in connection with ongoing hearings and appeals processes in FY 2017. The department reports that these costs rose from approximately \$75,000 in FY 2014 to approximately \$150,000 in FY 2015 and expects them to reach \$220,000 in FY 2017.

Other Issues

Long-Term Budget Impacts

As part of the FY 2017 Baseline's 3-year spending plan, the Land Department's General Fund costs were projected to remain unchanged in FY 2017 and decrease by \$(12,520,500) in FY 2018 below FY 2017. These estimates assumed the agency's self-funding proposal in SCR 1018 would receive voter approval in November 2016. To avoid overstating the savings should the ballot proposition have failed, however, the 3-year plan did not score the General Fund savings until 2018.

Due to the withdrawal of the self-funding ballot proposition and the repeal of related statutory provisions, the budget no longer assumes a \$(12,520,500) decrease in General Fund support beginning in FY 2018. *(Please see Self-Funding Agency section below.)*

Self-Funding Agency

In 2015, the Legislature approved SCR 1018, which would have allowed voters in the November 2016 general election to decide whether to amend the Arizona Constitution to allow up to 10% of annual proceeds from state trust land to be used for administration and disposition of trust lands. Contingent upon voter approval of this amendment, the FY 2016 Environment Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 13) would have repealed A.R.S. § 37-527, the authorizing language for the existing Trust Land Management Fund, and replaced it with a new A.R.S. § 37-527 creating the Trust Land Administration Fund.

The constitutional amendments proposed in SCR 1018 left ambiguous whether the Land Department would have authority to use proceeds both from land sales and royalties ("permanent receipts") and from lease revenues ("expendable receipts") for the administration of trust lands. The conditionally enacted language of the FY 2016

Environment BRB also did not provide statutory authority for the Land Department to deposit future fee revenue into an active fund nor transfer existing funds from the Trust Land Management Fund to an active fund upon its repeal. *(Please see Land Department narrative in the FY 2017 JLBC Baseline for more information.)*

In 2016, the Legislature determined not to pursue the self-funding plan as drafted in SCR 1018 and the FY 2016 Environment BRB. The Legislature thus approved HCR 2051, which withdraws SCR 1018 from the November 2016 general election ballot. The FY 2017 Environment BRB (Laws 2016, Chapter 120) also repealed the conditionally enacted self-funding provisions of the FY 2016 Environment BRB.

October 2015 Special Session and Proposition 123

As approved by voters at the May 2016 election, Proposition 123 implements the October 2015 Special Session legislation (Laws 2015, 1st Special Session, Chapters 1 and 2 and HCR 2001) to increase the annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

Proposition 123 provides \$172,081,000 in incremental funds to K-12 schools in FY 2016 and an estimated \$172,444,700 in FY 2017, or an estimated \$2,155,186,400 over 10 years. *(Please see October 2015 Special Session and Proposition 123 section in the Department of Education section for more information.)*

Proposition 123 also would increase distributions to other public institutions. Non-K-12 beneficiaries received \$5,745,100 in distributions under the 2.5% rate in FY 2015. The 6.9% distribution rate under Proposition 123 increases this amount to \$18,176,200 in FY 2016 and an estimated \$20,540,600 in FY 2017. Over 10 years, non-K-12 beneficiaries will receive an estimated \$159,721,000 in additional distributions under Proposition 123. *(Please see Table 1.)*

In addition to the distributions from the Treasurer, each beneficiary continues to receive lease and mineral royalty revenues generated from their land parcels. Non-K-12 beneficiaries received \$10,100,400 from these sources in FY 2015. *(Please see Table 1.)*

Table 1

State Land Trust Expendable Receipts: Non-K-12 Beneficiaries ^{1/2/3/}

	Treasurer's Distribution				FY 2015 Lease Revenues
	FY 2015 (2.5% Distribution)	FY 2016 (6.9% Distribution)	FY 2017 (6.9% Distribution)	Prop 123 10-Year Incremental Distributions	
Military Institute	\$ 12,800	\$ 38,600	\$ 41,600	\$ 280,200	\$ 71,000
Normal Schools ASU/NAU	82,100	256,600	285,800	2,128,700	214,500
A & M Colleges	228,000	695,200	754,700	5,220,000	217,100
School of Mines	258,000	786,000	853,600	5,896,400	241,800
University Fund	429,000	1,335,000	1,483,800	11,090,000	1,746,400
U of A Land - 1881	1,129,200	3,868,200	4,698,500	43,604,400	530,200
Universities Subtotal	\$ 2,139,100	\$ 6,979,600	\$ 8,118,000	\$ 68,219,700	\$ 3,020,900
State Hospital	\$ 138,400	\$ 431,100	\$ 477,300	\$ 3,510,900	\$ 562,600
Legal, Executive, & Judicial Buildings	185,200	566,900	619,800	4,360,400	201,100
Miners' Hospital (Pioneers' Home)	389,000	1,302,000	1,545,500	13,680,100	1,592,400
Penitentiaries (Dept. of Corrections)	282,500	906,300	1,037,200	8,486,500	1,100,100
School for Deaf & Blind	116,300	362,000	399,700	2,925,900	308,100
State Charitable					
Pioneers' Home (50%)	\$1,247,300	\$ 3,814,200	\$ 4,171,600	\$ 29,268,800	\$ 1,657,700
Dept. of Corrections (25%)	623,700	1,907,100	2,085,800	14,634,400	828,800
Dept. of Juvenile Corrections (25%)	623,700	1,907,100	2,085,800	14,634,400	828,800
State Charitable Subtotal	\$2,494,700	\$ 7,628,300	\$ 8,343,100	\$ 58,537,500	\$ 3,315,300
Non-K-12 Beneficiaries Total	\$5,745,100	\$18,176,200	\$20,540,600	\$159,721,000	\$10,100,400

^{1/} Trust beneficiaries receive revenues from 2 "expendable" earnings sources: 1) a 6.9% distribution of fund balances by the Treasurer and 2) payments for leases and mineral extraction from state trust lands. The Land Department distributes the lease and mineral royalty payments.

^{2/} Assumes 6.9% annual investment returns and \$11 million annual non-K-12 Land Trust sale proceeds.

^{3/} Some numbers do not add correctly due to rounding.

Additional Legislation

National Monument Geographic Boundaries

Laws 2016, Chapter 265 requires the Land Department to determine whether land parcels designated as national monuments are confined to the smallest geographic areas necessary for the management and protection of the objects of each monument. The department must request and review relevant coordinate data from the federal government and notify the Attorney General in cases where more land than is deemed necessary is designated as part of the monument. The Attorney General may then take action to limit the boundaries of the monument lands.

If the federal government provides the specified data, the Land Department's statutory obligations under this law may require additional staffing and operational resources.